

SURREBUTTAL TESTIMONY AND EXHIBIT OF
CHARLES E. LOY
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2019-281-S
IN RE: APPLICATION OF PALMETTO UTILITIES, INC. FOR
ADJUSTMENT (INCREASE) OF RATES AND CHARGES, TERMS AND
CONDITIONS, FOR SEWER SERVICE PROVIDED TO CUSTOMERS
IN ITS RICHLAND AND KERSHAW COUNTY SERVICE AREAS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Charles E. Loy. I am a Principal at GDS Associates, Inc. (“GDS”) and my business address is 919 Congress Avenue, Suite 1100 Austin, Texas 78701.

Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS IN THIS PROCEEDING?

A. Yes. I filed Direct Testimony and seven (7) exhibits with the Public Service Commission of South Carolina (“Commission”) on May 26, 2020.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am responding to the Rebuttal Testimony of Company witnesses William Crawford, Harold Walker, Donald J. Clayton, and Gary E. Walsh on behalf of Palmetto Utilities, Inc. (“PUI” or the “Company”). My response is focused on the two issues discussed in my Direct Testimony. Those are (1) the donated nature of the assets that Palmetto of Richland County, LLC (“PRC”) acquired from the City of Columbia (“City”) (“City Assets”) and (2) the corresponding accounting treatment as Contributions in Aid of Construction (“CIAC”) as well as the accounting treatment of certain PRC expansion fees. My testimony is organized around responding to a list of criticisms made by witness

Crawford concerning these two issues, and, while doing so, I respond to the other Company witnesses' rebuttal testimony on these topics as relevant. Finally, I address the concerns of witnesses Crawford and Daday regarding the fairness of treatment by the ORS.

Q. PLEASE RESPOND TO THE CRITICISMS BY WITNESS CRAWFORD OF YOUR 2019 GDS REPORT (EXHIBIT CEL-2) ("REPORT").

A. Witness Crawford's first criticism is with some of the words used in the Report, finding it too speculative and not arriving at principled conclusions. I disagree with witness Crawford's opinion. The language in the Report reflects the reality of a lack of clear records from the City. The Company has already acknowledged the fact that there is not an abundance of records supporting whether the plant purchased from the City was originally constructed by the City or was plant donated to the City by developers and others.¹ Nevertheless, the Report does arrive at principled conclusions based on the evidence available. More importantly and of primary significance to this proceeding, my Direct Testimony also arrives at clear, principled conclusions which happen to fully align with those in the Report. Notably, witness Crawford only discusses the Report and does not provide criticism of my Direct Testimony.

Q. PLEASE RESPOND TO WITNESS CRAWFORD'S SECOND CRITICISM OF THE REPORT.

A. Witness Crawford's second complaint is that the Report is based on scant evidence and does not include due diligence. The Report was based on the best available information provided by the Company. As previously stated, the City did not have good records. As a part of developing the Report, ORS and I confirmed with the City that no records existed

¹ Footnote 5 in Report. The lack of records is the driver for needing the Original Cost Study the Company performed.

1 and obtained the City's accounting entry related to the transaction (Direct Testimony
2 Exhibit CEL-6). I also requested and reviewed all the records the Company provided
3 related to its acquisition of the City Assets. Witness Crawford is incorrect that the Report
4 relied solely on the City's accounting entry related to the transaction. The Report included
5 a discussion about the deeds attached to the Asset Purchase Agreement ("APA") and
6 referenced and analyzed the deeds and information from the prior proceeding.² In terms of
7 due diligence, that responsibility lies with the Company and should have been conducted
8 prior to the transaction to acquire the City Assets. Witness Crawford's rebuttal testimony
9 rehashes his objections raised in his direct testimony focused on the Report and completely
10 ignores my Direct Testimony, which includes new evidence not included in the Report.

11 **Q. WHAT NEW EVIDENCE DOES YOUR DIRECT TESTIMONY PROVIDE?**

12 **A.** In addition to the City's accounting record, my Direct Testimony discusses City-
13 approved record drawings (Direct Testimony Exhibit CEL-5) that identify developers
14 which demonstrate that the City received large amounts of donated plant from developers.
15 This very clear evidence is not addressed or disputed in the Company's Rebuttal
16 Testimony. However, the Company did, in its Rebuttal Testimony HW Rebuttal Exhibit 1,
17 provide additional information that shows that in 1998 the City had a significant amount
18 of contributed equity recorded on its balance sheet.

19 **Q. WHAT ADDITIONAL INFORMATION DID THE COMPANY PROVIDE IN ITS**
20 **REBUTTAL TESTIMONY?**

21 **A.** Witness Walker discusses and includes the liabilities and fund equity section of the
22 balance sheet from the City's 1998 financial statements (HW Rebuttal Exhibit 1). These

² Commission Docket No. 2017-228-S, Willie Morgan's Direct Testimony, page 6, lines 6-20. See
<https://dms.psc.sc.gov/Web/dockets/detail/116386>

statements are very significant because the fund equity shows approximately \$93 million of “contributed capital.” Of the \$93 million, there is in excess of \$60 million classified as “From subdividers.” Subdividers are defined as “An individual who is responsible for dividing usually large parcels of land into smaller plots with the intent to sell.”³ This, combined with the numerous system plats submitted for approval by a host of different developers, provides conclusive proof that the City was indeed receiving large amounts of donated plant from developers (or subdividers). These facts alone refute the Company’s claims that there is no evidence that the City Assets sold to PRC were donated by developers (or subdividers).

Q. WHY DID YOU NOT INCLUDE THE 1998 CITY FINANCIAL STATEMENTS IN YOUR DIRECT TESTIMONY?

A. First, I did review several years of the City’s financial statements provided online. However, none were as old as 1998 or contained contributed capital as a separate account because the financial statements were produced after the implementation of Government Accounting Standards Board (“GASB”) 33 and 34 which made numerous changes to the financial reporting requirements of governmental entities. “With the passage of GASB 34, some municipal utilities’ Annual Reports reflect the removal of CIAC from the Balance Sheet and have charged it to Retained Earnings.”⁴ Apparently, this was the decision made by the City and explains why contributed capital is not itemized after GASB 34 was adopted. Regardless, HW Rebuttal Exhibit 1 from 1998 reflects contributed capital as a separate account and supports my conclusion that the City received large amounts of donated plant from developers.

³ See www.businessdictionary.com

⁴ Small Utility Accounting Manual, Indiana Utility Regulatory Commission, Water/Wastewater Division. Page 22.

Q. DID YOU HAVE ACCESS TO THE 1998 CITY FINANCIAL STATEMENTS PRODUCED BY THE COMPANY IN REBUTTAL TESTIMONY?

A. No. ORS submitted a continuing discovery request to the Company asking for any records or evidence that the Company intended to use in testimony or hearing to support its treatment of the City-acquired plant.⁵ The Company did not provide the 1998 City financial statement as a part of that continuing discovery request. I first saw the partial 1998 City financial statement as a part of the Company's Rebuttal Testimony which included only part of the balance sheet. The asset portion of the balance sheet was excluded.

Q. BEFORE RETURNING TO WITNESS CRAWFORD'S CRITICISMS, DO YOU HAVE ANY OTHER ISSUES RELATED TO WITNESS WALKER'S REBUTTAL TESTIMONY?

A. I do. Witness Walker also disputes my claim that the large gain on the City's accounting record is evidence of its receipt of donated plant. He does so on the grounds that in order for that to be true, the City would have had to have been under reporting net income.

Q. DO YOU AGREE?

A. I do not. My point was that if the donated plant sold could have been identified on the books and records of the City, or had actually been purchased or installed by the City, the City would have credited all of the plant sold rather than just a portion when the sale was recorded for the City Assets. The City apparently could not identify a good portion of the plant because it was never recorded, or the detail was lost during the transition to GASB 34. Thus, the City had to credit equity to show the profit on selling plant since the City did

⁵ ORS Water Operations Request No. 15, Question 4.

1 not have the records to support it paid for the City Assets. In addition, if the City was not
2 recording revenue properly it would be addressed in the City's audited financial statements.
3 Although I discuss the City's accounting record as it pertains to this case, I take no position
4 on the City's accounting methods or practices.

5 **Q. IS THERE OTHER CONFUSION RELATED TO THE DONATED NATURE OF**
6 **THE CITY ASSETS YOU WOULD LIKE TO ADDRESS.**

7 **A.** There is. Witness Clayton claims that I provide no City records to support the
8 donated nature of the City Assets and that lack of records means the contributions to the
9 City are not known and measurable.

10 **Q. DO YOU AGREE?**

11 **A.** I do not agree with witness Clayton. First, I do not agree that the lack of City records
12 is conclusive regarding this issue. Rather, I provide significant amounts of evidence (APA
13 deeds, City-approved plats, City accounting records, and here the 1998 City financial
14 statements), all which points to the donated nature of the City Assets. Second, I disagree
15 with witness Clayton's application of the known and measurable standard. The burden of
16 establishing the non-contributed nature of the City Assets remains with the Company.
17 Although the Company argues against the evidence provided that the City Assets are
18 contributed, the Company provided no evidence that the City invested in the plant itself.
19 As I discuss in my Direct Testimony, if the City had invested in the City Assets, cost
20 records would exist to support the investment, and the Company should have received and
21 reviewed those cost records as a part of the due diligence conducted to acquire the City
22 Assets. Even assuming there is a lack of records on the issue of whether the City Assets
23 were donated or constructed, there is no default ratemaking rule that, in such

circumstances, the City Assets should be included in rate base and treated as if they were not donated.

Q. RETURNING TO WITNESS CRAWFORD’S CRITICISM OF THE REPORT, WHAT WAS HIS THIRD CRITICISM?

A. Witness Crawford argues that the Report is inconsistent in its treatment of the accounting rules applicable to the City and the associated City accounting record.

Q. DO YOU AGREE?

A. I do not. The Report makes the clear distinction between the treatment of donated plant under National Association of Regulatory Utility Commissioners Uniform System of Accounts (“NARUC” or “USOA”) versus GASB. As relates to the City, GASB requires recording of donations as revenue and not as CIAC. On the other hand, investor-owned utilities governed by NARUC are required to record donations as CIAC.

Q. WHAT IS WITNESS CRAWFORD’S FOURTH CRITICISM OF THE REPORT?

A. Witness Crawford argues that the City’s accounting record is not valid because of a South Carolina Supreme Court case and its findings about the City’s accounting practices.⁶

Q. DO YOU FIND WITNESS CRAWFORD’S ARGUMENT CONVINCING?

A. I do not find the argument convincing. First, as previously mentioned, my Direct Testimony provides several points of evidence besides the City’s accounting record. Additionally, I do not believe the Supreme Court case of Azar v. City of Columbia is relevant. I reviewed the decision and there is no accusation that the City was “using CIAC to create a slush fund” as asserted in witness Crawford’s Rebuttal Testimony. Although I

⁶ Azar v. City of Columbia, 414 S.C. 307, 778 S.E.2d 315 (2015).

1 am not an attorney, the case seems to revolve around an assertion about a transfer of surplus
2 revenues from the City's utility proprietary fund to the general fund. Further, I did not find
3 a single mention (footnote or otherwise) in the City's audited financial statements of this
4 case or anything else regarding the misappropriation of contributed funds after reviewing
5 several years of the City's financial statements. More importantly, at issue here is the
6 donated nature of the City Assets which represent physical assets and not funds or cash
7 which was the focus of Azar.

8 **Q. BEFORE TURNING TO WITNESS CRAWFORD'S FINAL CRITICISM OF THE**
9 **REPORT, WOULD YOU LIKE TO RESPOND TO OTHER REBUTTAL**
10 **TESTIMONY RELATED TO THE DONATED NATURE OF THE CITY ASSETS?**

11 **A.** Yes. I have two additional points I would like to convey. First, I will respond to
12 witness Clayton's argument that he disagrees with the use of the Handy-Whitman ("H/W")
13 index. Witness Clayton simply states in his Rebuttal Testimony that he disagrees for the
14 reasons described in his own Direct Testimony. However, he provides no new information
15 or argument in his Rebuttal Testimony related to the issue of which index should be used
16 in the original cost study.

17 **Q. DO YOU CONTINUE TO BELIEVE THAT THE H/W INDEX IS APPROPRIATE**
18 **TO USE?**

19 **A.** Yes, as I stated in my Direct Testimony, I believe it is industry best practice to do
20 so. In fact, multiple Company witnesses have used the H/W index in the past.

21 **Q. WHICH COMPANY WITNESSES HAVE USED THE H/W INDEX IN OTHER**
22 **ORIGINAL COST STUDIES?**

1 A. Witness Clayton and Witness Walker have both used H/W index in original cost
2 studies performed in other state jurisdictions.

3 **Q. WHEN DID WITNESS CLAYTON USE THE H/W INDEX?**

4 A. Despite the Company's response to the contrary, Witness Clayton used the H/W
5 index in original cost studies in Texas on behalf of AquaSource.⁷ It is clear the H/W index
6 was used because my firm was involved in those studies. I have found a signed and stamped
7 letter that provides a record of this fact (see Surrebuttal Exhibit CEL-1).

8 **Q. WHEN DID WITNESS WALKER USE THE H/W INDEX?**

9 A. I found an example of Witness Walker in a Pennsylvania regulatory case in 2019:
10 "The original cost new inventory was trended using the Handy Whitman Index of Public
11 Utility Construction Costs for the water industry."⁸

12 **Q. WHAT DO YOU MAKE OF FACT THAT COMPANY WITNESSES HAVE USED**
13 **THE H/W INDEX PROFESSIONALLY IN THE PAST AND IT IS NOT BEING**
14 **USED BY THE COMPANY IN THIS CASE?**

15 A. It is inconsistent and, in my experience, the use of the H/W index is a widely-
16 accepted industry practice. Use of the Consumer Price Index provides a more favorable
17 figure for the Company, but there is simply no basis for its use in the Company's study.
18 This inconsistency is very similar to another inconsistency I point out in my Direct
19 Testimony. Witness Walker's report states that USOA Accounting Instruction 21 should
20 apply to the Company's acquisition of the City Assets while Witness Walsh argues the
21 opposite.⁹

⁷ ORS Water Operations Request No. 16, Question 4.

⁸ Pennsylvania Commission Docket No. A-2019-3009052.

⁹ Witness Walker Direct Testimony Exhibit HW-1, beginning at page 2.

Q. WHAT IS YOUR SECOND POINT RELATED TO THE PROPER ACCOUNTING TREATMENT FOR ASSETS DONATED TO THE CITY AND SUBSEQUENTLY PURCHASED BY THE COMPANY?

A. Witness Walsh repeats his argument that the USOA Accounting Instruction 21 does not apply to the Company's acquisition of the City Assets.

Q. WHAT IS YOUR RESPONSE?

A. I continue to find Company witness Walsh's arguments to be semantical misinterpretation of the USOA definition of 'operating system' and 'utility' and that a simple reading, which I elaborate on in my Direct Testimony, shows that Accounting Instruction 21 does apply to PUI and PUI's ownership of the City Assets. Regardless, the USOA applies to the Company per South Carolina regulations and the previous Commission orders.¹⁰ Furthermore, witness Walsh is missing the forest for the trees and is contradicted on this issue by another Company witness, witness Walker. The principle underlying the USOA and the accounting treatment of CIAC is that customers should not be made to pay twice for the same plant. As discussed in my Direct Testimony, it is ORS's position that this would be the case if the Company is allowed to earn a cost of capital return on donated plant. Witness Walsh only focuses on interpreting certain definitions in the NARUC USOA and fails to address this larger reality. Although the Company makes arguments that the acquisition was in the public interest, it does not take the next step of arguing that having a policy of allowing an investor-owned utility to earn on plant donated

¹⁰ Commission Order No. 2018-155 issue 3-7-18 for PUI; <https://dms.psc.sc.gov/Attachments/Order/73f7de29-50f2-4823-b877-38e30a56f8a4>, p.31 #3 of Ordering clause; 3. Palmetto shall maintain its books and records for its operations in accordance with the NARUC Uniform System of Accounts for Class A utilities, as adopted by the Commission.

1 to a municipality would be in the public interest. This is not existing policy in South
2 Carolina, and it is not ORS's position. It was beholden on the Company to argue the merits
3 of this policy, and it failed to do so.

4 **Q. WHAT WAS WITNESS CRAWFORD'S FINAL CRITICISM OF THE REPORT?**

5 **A.** Witness Crawford's final criticism switches topics between the issues I address in
6 my testimony. Instead of the donated nature of the City Assets, witness Crawford focuses
7 on the treatment of expansion fees. Witness Crawford argues that the Report does not
8 consider that the Company did not acquire the City's wastewater treatment plant, so the
9 expansion fees did not fund property donated to the Company.

10 **Q. IS THE TRANSFER OF THE WASTEWATER TREATMENT PLANT**
11 **RELEVANT TO THE ACCOUNTING TREATMENT OF THE POST-**
12 **ACQUISITION EXPANSION FEES?**

13 **A.** No. Witness Crawford does not advance his position in light of the extensive
14 discussion contained in my Direct Testimony. Also, page 6 of the Report discusses the
15 APA including the plans for the wastewater treatment plants. As discussed in my Direct
16 Testimony and the Report, the post-acquisition expansion fees are defined by NARUC as
17 CIAC and cannot be treated as revenue. The fact that the Company did not acquire the
18 City's wastewater treatment plant does not alter the proper NARUC classification of
19 expansion fees charged and collected by the Company after the acquisition was completed.
20 The Company obtained approval by this Commission to continue charging the expansion
21 fees and the Company told the Commission of its plans to expand its existing treatment
22 plant and build a new transportation line. The expansion fees collected after the acquisition
23 by PUI should be recorded as CIAC and not revenue.

Q. WHAT ELSE WOULD YOU LIKE TO ADDRESS WITH RESPECT TO THE EXPANSION FEE ISSUE?

A. First, I would like to clarify that I am discussing expansion fees as defined and explained in my Direct Testimony. I am not addressing or making recommendations to tap fees. Witness Clayton references tap fees in his rebuttal testimony, but I assume he means expansion fees given the definition in my Direct Testimony to which I make a recommendation. Witness Clayton also addresses this issue by arguing that Generally Accepted Accounting Principles (“GAAP”) did not allow the Company to book the expansion fees as CIAC. He also argues that treating the expansion fees as CIAC would be akin to retroactive ratemaking.

Q. IS GAAP RELEVANT TO THE RATEMAKING TREATMENT OF THE EXPANSION FEES?

A. No, it is not. As I state in my Direct Testimony, I am not taking issue with how the Company classifies expansion fees for financial reporting purposes. However, financial reporting does not equate to ratemaking treatment. As stated above, the NARUC USOA requires that, due to the nature of the expansion fees, they should be booked as CIAC.

Q. WOULD TREATING THE EXPANSION FEES AS CIAC IN THIS CASE BE AKIN TO RETROACTIVE RATEMAKING AS ARGUED BY WITNESS CLAYTON?

A. It would not. Again, South Carolina regulation requires the USOA apply to the Company, and the USOA clearly dictates that the expansion fees be treated as CIAC.¹¹ The

¹¹ SC Regulations: 103-517 Accounting Procedures. All books and records of the utility shall be maintained in accordance with the NARUC USOA for Class A, B and C Sewerage Utilities to the extent applicable. Such records must be made available for examination by the ORS or its authorized representatives at all reasonable hours. Full cooperation will be provided by the utility during rate adjustment audits or compliance audits conducted by the ORS or its representatives.

1 Company was not granted a waiver from the USOA. Therefore, the Company was not
2 relieved of the regulatory requirement to treat expansion fees as CIAC as witness Clayton
3 seems to argue.

4 **Q. WITNESSES CRAWFORD AND DADAY ACCUSE YOU OF TRYING TO**
5 **“PAINT THE COMPANY IN A FALSE LIGHT” AND TREATING PUI**
6 **“UNFAIRLY.” WHAT IS YOUR RESPONSE?**

7 **A.** The Company’s accusations are not true. I was hired by the ORS to provide expert
8 witness testimony. ORS did not ask for or seek any specific rate case conclusions or
9 recommendations at the time I was retained nor at any other time when working to prepare,
10 present and offer independent expert witness testimony to this Commission. ORS did not
11 ask or request me to alter my regulatory conclusions or recommendations in my testimony
12 filed with this Commission. I attempted to understand the positions of the Company that I
13 found unique and unusual. And in so doing, I asked relevant questions of PUI, but the
14 Company declined to answer. I only sought relevant data and information during the
15 process of collecting responses from PUI in order to prepare and submit expert testimony
16 to the Commission.

17 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

18 **A.** Yes, it does.



GDS Associates, Inc.

CHIEF CLERK'S OFFICE

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December 20, 2001

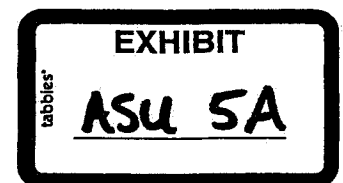
To: Judge William Newchurch
Judge Craig Bennett
All Parties of Record
TNRCC Docket Clerk

RE: Engineering Valuations of Property of AquaSource Utility, Inc.
In Support of Settlement of SOAH Docket No. 582-01-0416 and
TNRCC Docket Nos. 2000-1074-UCR & 2000-1075-UCR
And Settlement of SOAH Docket No. 582-01-1365 and
TNRCC Docket Nos. 2000-1366-UCR, 2000-1367-UCR,
2000-1368-UCR, and 2001369-UCR

Dear Ladies and Gentlemen:

This letter is submitted under my seal as a Professional Engineer licensed in the State of Texas and in fulfillment of Item 15 in the Settlement Agreement of September 25, 2001 for the above referenced dockets. The values of plant assets in this proceeding for AquaSource Utility, Inc. (ASU) are to be based upon the two attached schedules: Schedule I for plant values at the end of the test year and Schedule II for plant values at the date of purchase. These various values are to become Findings of Fact and recited in the AGREED MOTION TO REMAND CONSOLIDATED DOCKETS TO THE TNRCC FOR ACTION BY THE EXECUTIVE DIRECTOR (Motion) for attachment to the Final Order. Dr. Victoria Harkins, P.E., Team Leader, Utility Certification and Rate Analysis Team, Utilities and District Section, Water Supply Division, Texas Natural Resource Conservation Commission reviewed the schedules and concurs with the plant values contained in them.

The respective schedules are based upon the original cost of individual assets in the inventory. Whenever credible information on original cost of assets was available, that information was used. Credible original cost information primarily came from findings of fact and conclusions of law in prior dockets, invoices, and sworn information in filings at TNRCC. When credible original cost information was unavailable, a reliable estimate of original cost was developed by trending an estimate of replacement cost. To use trending procedures, information on installation date and an estimate of replacement cost were needed. Installation dates for individual assets were determined from equipment tags, sworn information in filings at TNRCC, subdivision plats, well drilling logs, and other credible sources. A benchmark of July 1999 was



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used for determining replacement costs. Replacement costs were determined using construction cost catalogs and other sources. Construction cost indices from (1) Handy-Whitman Index of Water Utility Construction Costs for the South Central Region (Region 4); (2) the ENR Index of Building Cost Trends; and (3) the Bureau of Reclamation Construction Cost Trends were used to calculate original cost from replacement cost using a ratio of construction cost indices for appropriate time periods. The original cost values were then used as a basis for determining annual depreciation, accumulated depreciation, and net book value. Similar procedures were used to calculate replacement cost depreciated at the time of acquisition. The date of acquisition is used for regulatory purposes.

Once a value was determined as of July 1999 for a replacement cost, the value was trended to the approximate date of installation (trended original cost value) and depreciated to December 31, 1999 (test year for the rate application) to set rate base. The same replacement cost was also trended either forward or backward to date of acquisition. Once a value was determined for a replacement cost at the date of acquisition, the value was depreciated to represent the age and condition of the asset. For example, the replacement cost at the date of acquisition for the entire sewer system of Niagra Subdivision was determined to be \$148,657. However, this replacement cost is for a new sewer system. In reality, the composite age of the system is 13.3 years with a composite remaining economic service life of 19.4 years. Therefore, the \$148,657 value was depreciated 13.3 years to a replacement cost depreciated value of \$87,737.82 at the date of acquisition to represent an approximate value of the system at acquisition. As seen in the summary sheets for each system, there is a net book value and a replacement value as of the date of acquisition. This net book value depreciated further to December 31, 1999 will result in the same values set for rate base in this proceeding.

The values for plant assets reflect the concurrence of Dr. Harkins and me to items of agreement based upon the negotiations of the parties in reaching the settlement agreement and do not reflect the individual opinions of either Dr. Harkins or me. In reaching concurrence upon these numbers, Dr. Harkins and I agree that the values are fair and just representations of actual values, a suitable basis for Findings of Fact, can be used as the basis of the books and records of ASU, and appropriate as precedential values for this proceeding and future cases. Both of our respective schedules are in substantial agreement upon original cost of assets and depreciable lives.

Attached Schedule I was prepared by Dr. Harkins based on listing of assets presented in the rate application and is the basis for the values of Original Cost, Annual Depreciation, Accumulated Depreciation, and Net Plant at the End of the Test Year, December 31, 1999. That schedule contains values for each inventory item, summaries by individual system, and a summary of all systems. I have reviewed the inventory items and the computational procedures, and I accept the inventory, values, and computations of Schedule I as consistent with the settlement agreement.

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Attached Schedule II, including the summary and individual schedules were prepared by me or under my direct supervision and control. Schedule II is the basis for the values of Replacement Cost Depreciated and Net Book Value at the time of Acquisition for each of the 72 individual companies purchased by ASU prior to December 31, 1999. Values of Replacement Cost were obtained from (1) costs to replace individual inventory items, trended to installation date, submitted by me in support of prefiled testimony, and accepted by Dr. Harkins as representative of Original Cost of the inventory item or (2) values based on submissions by Dr. Harkins in prefiled testimony and/or accepted as representative of Original Cost in settlement negotiations and then trended by me to the date of System Purchase by AquaSource. Computations of Replacement Cost Depreciated and Net Book Value at Time of Acquisition are based upon the same service lives used by Dr. Harkins and using similar depreciation computations and valuation techniques. Dr. Harkins has reviewed and accepted these computations and where inconsistencies may exist, we have mutually agreed that those differences have no material impact on agreed upon values.

The values to be included in the Motion are:

1. As of December 31, 1999, the end of the test year used in this consolidated docket, ASU's original cost investment in currently used and useful water utility plant in service is \$59,382,797.
2. As of December 31, 1999, ASU's accumulated depreciation on its original cost investment in currently used and useful water utility plant in service is \$20,962,536.
3. As of December 31, 1999, ASU's annual depreciation expense on its original cost investment in currently used and useful water utility plant in service is \$1,395,025.
4. ASU's replacement cost depreciated investment in currently used and useful water utility plant in service as of the dates of acquisition is \$52,820,879.
5. ASU's net book value investment in used and useful water utility plant in service as of the dates of acquisition is \$37,757,113.
6. As of December 31, 1999, ASU's original cost investment in currently used and useful sewer utility plant in service is \$18,915,662.

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7. As of December 31, 1999, ASU's accumulated depreciation on its original cost investment in currently used and useful sewer utility plant in service is \$9,026,148.
8. As of December 31, 1999, ASU's annual depreciation expense on its original cost investment in currently used and useful sewer utility plant in service is \$467,624.
9. ASU's replacement cost depreciated investment in currently used and useful sewer utility plant in service as of the dates of acquisition is \$14,401,402.
10. ASU's net book value investment in used and useful sewer utility plant in service as of the dates of acquisition is \$9,621,520.

Very truly yours,



Thomas G. Gebhard, Jr., P.E., Ph.D.
Principal

TGG:sni

Attachments

